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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002488

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [PREL](#) [CH](#) [TW](#)

SUBJECT: SUSTAINABLE ECONOMIC DEVELOPMENT CONFERENCE - MORE  
BAD SIGNS

REF: A. TAIPEI 1644

[1](#)B. TAIPEI 2307

[1](#)C. TAIPEI 2365

[1](#)D. TAIPEI 2462

Classified By: AIT Acting Deputy Director Charles E. Bennett, Reason 1.  
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[1](#)1. (C) Summary: People First Party (PFP) Legislator Christina Liu told AIT/T that the Pan Blue parties are putting politics before Taiwan's economic well-being in their attitude toward Taiwan's July 27-28 Sustainable Economic Development Conference. She predicted the PFP and Kuomintang (KMT) would find reasons to oppose the conference recommendations, even those recommendations that are consistent with Pan Blue positions. Liu believes there is the possibility for progress on the conference's recommendations on cross-Straits banking. However, her observations overall reinforce the assessment that the conference is unlikely to result in a major improvement in cross-Straits economic relations. End summary

Putting Politics First  
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[1](#)2. (C) In a July 21 conversation with econoffs, PFP Legislative Yuan (LY) Member Christina Liu expressed profound disappointment in the attitude of the Pan Blue parties (PFP and KMT) toward Taiwan's Sustainable Economic Development Conference. Liu has been a prominent participant in the planning stages of the conference, active in both cross-Straits economic and financial discussions. After press reports revealed on July 11 that Liu had forged a compromise with the Taiwan Solidarity Union's Huang Tien-lin on cross-Straits banking, she received a letter from the PFP leadership threatening her with expulsion from the party if she participated in the conference. Liu announced her withdrawal from the conference on July 13, but has continued to voice her support for the event publicly (ref D). Liu told econoffs that she had been naive and only realized several days after withdrawing that her party and its Pan Blue allies in the KMT would put politics before Taiwan's economic interests to prevent the conference from succeeding.

Pan Blue's Superficial Participation  
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[1](#)3. (C) Liu commented that even though prominent KMT figures including party Vice Chairman Chiang Pin-kun and Legislative Yuan President Wang Jin-pyng are publicly

participating in the conference, their involvement will be limited or superficial. She explained that Chiang is participating only in discussions concerning government restructuring. Wang will be a co-chair of the conference, but Liu pointed out that the conference itself will perfunctorily approve the recommendations of the preparatory committees. Liu, however, said that she had crossed a line by helping the Chen Administration achieve progress on controversial cross-Strait issues.

#### Post-Conference Obstruction

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¶4. (C) After the conference's conclusion, Liu believes that the Pan Blue will seek to ensure that none of the cross-Strait recommendations are implemented, even though they will likely be consistent with Pan Blue positions. She said that no matter what the recommendation, the KMT and PFP will find something wrong with it. In Liu's opinion, the Pan Blue leadership wants to make sure that no progress on cross-Strait relations occurs in the final two years of the Chen administration to further weaken the Democratic Progressive Party and to paint themselves as "heroes" who can save Taiwan from the stagnation in cross-Strait relations.

#### Long Odds for Cross-Strait Banking

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¶5. (C) With active Pan Blue opposition, Liu predicts there will be no real progress on easing restrictions that limit Taiwan investment in the Mainland to 40 percent of a firm's total capital, except on a case-by-case basis. She called the issue "too sensitive." She said that progress on cross-Strait banking through industry-led discussions would

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be possible only if Premier Su Tseng-chang acts immediately after the conference to work with industry groups and regulators on concrete steps toward implementation before the LY comes back into session in September. Liu believes the public would support efforts to open up Taiwan to PRC bank representative offices and make it possible for Taiwan banks to open branches in the Mainland. Under these circumstances, Liu said, the Pan Blue won't be able to oppose the initiative if the groundwork has already been laid. Nevertheless, she doubts that Su will be able to move quickly enough.

#### Financial Reform and the Mega Case

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¶6. (C) During the conversation, Liu also offered some thoughts on Taiwan's financial reform program. She indicated that she was not sorry to see the administration put the second stage financial reform goals on hold pending the outcome of the conference. She commented that the second stage financial reform was never a "real reform" program that would improve the health of Taiwan's financial sector. Liu also noted that Premier Su would benefit politically from the outcome of the Mega Financial Holding Co. case (ref B). Sanctions against Chinatrust for the way it had acquired Mega stock, would make Su appear to be standing up to big business. Liu speculated that former Chinatrust Chairman Jeffrey Koo may have received assurances from President Chen Shui-bian that "Mega was Chinatrust's." However, with Su assuming more authority in the administration, those assurances no longer applied, resulting in the sanctions that forced Koo to step down.

#### Comment - Conference DOA?

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¶7. (C) Liu's pessimistic observations coincide with Presidential Secretary Mark Chen's Friday announcement that President Chen would oppose the conference outcome if it

did not put "Taiwan first." On Monday, Premier Su told business leaders that the administration would seek to preserve Taiwan's sovereignty under the framework of the "active management" policy. In addition, Taiwan Advocates (associated with former President Lee Teng-hui) reiterated its opposition to further economic opening with the PRC. These developments reinforce the assessment that the conference is unlikely to result in a major improvement in cross-Strait economic relations. Banking may be one area that shows potential for substantial progress. Otherwise the conference will do little more than slightly advance some of the liberalization measures that the administration already has in the works. Bitter political conflict in Taiwan over cross-Strait economic policy and other issues appears likely to continue almost unabated after the conference concludes on Friday.

YOUNG